

MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Meeting

February 1, 1960
2:30 P.M.

Council Chamber, City Hall

The meeting was called to order with Mayor Miller presiding.

Roll call:

Present: Councilmen Bechtol, Palmer, Perry, White, Mayor Miller
Absent: None

Present also: W. T. Williams, Jr., City Manager; Dudley Fowler,
Assistant City Attorney

MAYOR MILLER announced this was a special meeting called by three members of the City Council, and the Council was all in attendance to hear some discussion about the gas business. The meeting was called for the purpose of hearing "GAS RESERVE" information to be presented by Intra-Tex Gas Company.

MR. CLINT SMALL introduced MR. CHARLES BROWN, MR. KERTCHEFIELD, MR. PRUETT, MR. WHELESS of Corpus Christi, Texas; MR. KILLIAN, Consulting Geological Engineer; two representatives from Houston Pipe Line Company, MR. JACKSON HIND, General Counsel, and MR. ED de MOOS, Manager.

MR. SMALL stated in order to demonstrate that they did have the reserve to which they committed themselves and dedicated themselves, they would first present an executed contract between Intra-Tex and Houston Pipe Line Company, whereby Houston Pipe Line Company obligated itself to deliver to INTRA-TEX a total of 433 billion cubic feet over the 20 year period of this contract. One hundred and ninety-one billion is to be delivered in the first ten years and two hundred and forty-two billion the second ten years.

MR. SMALL stated the reason for that difference is that the city's requirements increase materially over the years, and the original dedication is keyed to what the city expects to use. That dedication will carry well through the eight years of the City's estimate. He said under their contract, they were obligated to supply the City's full requirements; but in order to come to some definition of what had to be supplied, first they had used the estimates of the City's staff in connection with its regular operations and had carried the contract to what the City expended to use over the years. That contract is executed and in force as of right now, both by Houston Pipe Line Company and Intra-Tex.

MR. SMALL presented the Annual 1959 report of the HOUSTON NATURAL GAS CORPORATION, which is the parent company and owns HOUSTON PIPE LINE COMPANY in its entirety. He stated the report would give the financial structure of the Houston Natural Gas Company, and its subsidiaries, and the Houston Pipe Line Company. He pointed out it shows the financial condition which is in excess of One Hundred million dollars for the company; shows the bonded indebtedness, and gives a general picture of the Houston Natural Gas Company and its subsidiaries. To show their plan of connecting up with the Houston Natural Gas System, Mr. Small displayed a preliminary map of the route of the 16" pipe line to deliver gas from the Houston Pipe Line system to Austin. He had some small maps on which the general pipe line system was outlined. He stated the point of delivery of their take off would be near the town of Toleda, Texas, which is just north of Normanna in Bee County, and they would have a connection with the whole Houston Pipe Line Company at that point. He stated gas would be delivered to them at a pressure of 650 pounds which would enable INTRA-TEX to make delivery to the City at its required pressure without any further compression on their part. He stated further that Houston Pipe Line System is connected to some 90 different gas fields and connected to over 900 individual wells. They contract to deliver gas at 650 pounds at the point of delivery, and the prices they would have to pay are set out in the contract and one could quickly check those prices against the prices which Intra-Tex would receive from the City, to determine exactly what INTRA-TEX has in the way of spread insofar as the City's gas was concerned. The initial dedication does not mean that there will not be more gas dedicated. He stated under their proposal, the City has the election to use other fuel and reject any additional contract they make in the future if it did not like the price. He said the City was not committed to buy any more than its requirements--24.2 trillion BTU's a year. If it has requirements in excess of that it could buy that somewhere else if it wanted to. He stated his company was committed to sell the City gas at cost-plus.

As to the fixed transportation cost, Mr. Small stated that was set out in the schedule, and a preliminary draft of his contract had been presented to the City Attorney, and that office is reviewing the definitive contract at this time.

MR. SMALL stated in regard to whether or not HOUSTON has reserves to fulfill its commitments to INTRA-TEX, he wanted to present MR. HARRY KILIAN, Petroleum Geologist, who was in partnership in a firm of consultants--HARRY C. SPOOR, JR. He said this firm was well recognized throughout the gas industry and specialized in the study of oil and gas reserves. (Mr. Small listed some of their representative Clients.) He stated Mr. Kilian would point out that HOUSTON PIPE LINE COMPANY has a gas supply equal to 19.72 years over their current rate of withdrawal. In its mortgage, the company is required to stay 10 years in advance of its withdrawal. HOUSTON PIPE LINE COMPANY would be required to be at least 10 years ahead of its current withdrawals.

MR. HARRY KILIAN distributed copies of his letter addressed to INTRA-TEX GAS COMPANY, dated January 29, 1960, and read the letter as follows:

"January 29, 1960

"Intra-Tex Gas Company
907 Perry-Brooks Building
Austin, Texas

"Gentlemen:

"Houston Pipe Line Company has requested that I advise you regarding the recoverable gas reserves available to such company, with reference to its ability to fulfill a commitment to furnish your company with certain quantities of natural gas during the next twenty years. Representatives of Houston Pipe Line Company (hereinafter for convenience called "the Company") have advised that the total commitment of the Company is 433 billion cubic feet of gas to be supplied over a twenty-year period.

"I am a registered Professional Engineer (Geological) in the State of Texas. In connection with various reports required under the Company's mortgage, I have been retained for a number of years as an independent engineer, approved by the Trustee for the Company's bondholders, to study and evaluate the estimated recoverable gas reserves available to the Company.

"At the time of the last such report, it was determined that the Company had, as of January 1, 1959, an estimated gas supply of 1,882 billion cubic feet of gas, which represents the minimum volume of gas which the Company can reasonably expect to obtain by reason of proven, recoverable, deliverable natural gas reserves committed to it by contract. Between January 1, 1959, and October 1, 1959, (the last determination of reserves acquired), the Company added an additional 90 billion cubic feet of reserves which was committed under long term contracts.

"Taking into account the estimated gas requirements of the Company based on annual withdrawals from reserves, the Company had, as of October 1, 1959, a gas supply equal to 19.72 years at the current withdrawal rate. This supply is currently under contract; further acquisitions of gas reserves are to be expected in the normal operation of the Company's business.

"It should be pointed out that the sources of gas supply referred to above and to which gas reserves are attributed, do not include short term gas purchases by the Company which historically have approximated 10% of the total volumes purchased by it each year. These short term purchases serve to extend the reserve life of the gas supply sources. Also excluded are all volumes of exchange or transport gas.

"It is further my understanding that the commitment of the Company has been satisfied in part by assignment to Intra-Tex Gas Company of a contract to purchase all of the gas controlled by Tidewater Oil Company in the Normanna Field, Bee County, Texas. Because such contract provides for an annual minimum purchase requirement which varies with the recoverable gas reserves thereunder, such reserves cannot be finally determined until agreement regarding reserves has been reached with representatives of Tidewater. In preparation for determination of the recoverable gas reserves to be fixed by agreement between Tidewater and Intra-Tex, I have made an initial study of the recoverable gas reserves under such contract, based upon all available, pertinent information. It is my conclusion from my initial study of this matter that the recoverable gas reserves under the said Tidewater contract are of the order of 73 billion cubic feet.

"Based upon my study and knowledge of the Company's gas supply and its operations in the Texas Gulf Coast area, it is my opinion that the Company will be able to furnish your company the required gas volumes in excess of those available from the Normanna Field, from its presently contracted gas supply sources and from those which it will acquire from time to time in the future.

"Very truly yours,
s/ Harry C. Spoor, Jr.
Harry C. Spoor, Jr.
s/ Harry Kilian
Harry Kilian"

The Council discussed with Mr. Small the Normanna Gas Field, Mr. Small stating that the option on the Normanna Field had been exercised as to whatever those reserves amount to, and the balance of the obligation would come out of the Houston Natural Gas System. He stated the two would be tied together, and the total commitment would be up to the total amount of 433 billion cubic feet.

MAYOR MILLER reviewed the present contract, and the negotiations with Mid-Tex and other companies, and reviewed meetings held and particularly the one held on January 11th, at which meeting the Council renegotiated with INTRA-TEX. He stated other companies were waiting and wanted to appear before the Council. The Mayor discussed the prices in the INTRA-TEX contract with Mr. Small. Mr. Small stated the City had received proposals from numerous other people; and on November 10, 1959, he was invited by telephone from the City Manager, along with eight or ten other gas suppliers to appear and present a formal bid for a 20 year supply. He stated they appeared at that time and made this written proposal of November 10th; and they understood that several other proposals were made. He stated the thing rocked along for some time; and as it became obvious, unless something was done, they would not have time to build a pipe line to get the gas here on July 1st, the time the new Power Plant was to open. Also HOUSTON would lose their Normanna gas unless something was done to exercise the option. Mr. Small stated he advised the City he had to terminate his offer on January 11th because (1) he would not have any gas to talk about, and (2) if they did not get started, they could not build their pipe line. He said they were able to extend the time to the 13th; and it was on that basis that the matter was again considered carefully, and their bid found to be the lowest that had been made from that time--September until January of this year-- He said their being the lowest bidder, they got the letter of intent. MR. SMALL stated INTRA-TEX had made a good contract; it has a substantial volume of gas dedicated, which no one else could do--give a fixed price on a great source of supply. He explained the contract gives flexibility of buying all gas, passing on contracts made in the future where there will be a whole supply at a fixed price, and the cost would be known. He said the Company had put up \$100,000 in cash, which they offer the City the right, if they are in substantial default and fail to carry out any of their commitments that are substantial, to take over the whole pipe line without any cost. That would be an investment of \$5,000,000, in which his group would have an equity of about a million dollars. He offered the city the right as a part of that contract, if they fell down, it could take the whole thing over at whatever it was worth at that time. He did not think the City would get any proposals of fixed price with the dedication of the volume of gas that Intra-Tex had dedicated. He stated a gas contract was not worth anything unless there was gas to back it up, and that United and Southern Union had the gas, but they had never seen fit to give the city a fixed price like Intra-Tex had set out. He stated Intra-Tex had made a good effort and had a letter of intent that is binding and valid and they felt they had demonstrated here sufficient available reserves under the HOUSTON contract, and there was nothing to argue about in the situation. The Mayor again reviewed the status with SOUTHERN UNION, AND the discussion with Intra-Tex about their changing their price on January, and awaiting representatives from Southern Union,

who were unable to get to Austin due to bad weather; a majority of the Council, in their wisdom or lack of wisdom making a deal over his protest. The Mayor stated he had asked the Council to at least call the Advisory Committee in, and not to take action, but they called the City Clerk and had the meeting, which he stated he did not think was binding.

After the Council discussed the proposal in detail, Councilman Bechtol moved that we extend the time provision in the Intra-Tex letter of intent two weeks, so that we may have adequate time to look over their reserves as presented here today and that the City Manager and City Attorney be authorized to hire outside counsel to work along with the City Attorney in determining that the contract submitted by Intra-Tex does what their proposal says it will do. The motion, seconded by Councilman Palmer, carried by the following vote:

Ayes: Councilmen Bechtol, Palmer, Perry
Noes: Councilman White
Present but not voting: Mayor Miller

There being no further business, Councilman Bechtol moved that the Council adjourn. The motion, seconded by Councilman Palmer, carried by the following vote:

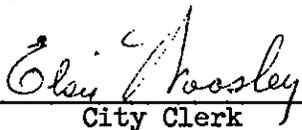
Ayes: Councilmen Bechtol, Palmer, Perry, White, Mayor Miller
Noes: None

The Council adjourned at 4:15 P.M., subject to the call of the Mayor.

APPROVED _____

Mayor

ATTEST:



City Clerk